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July 23, 1975

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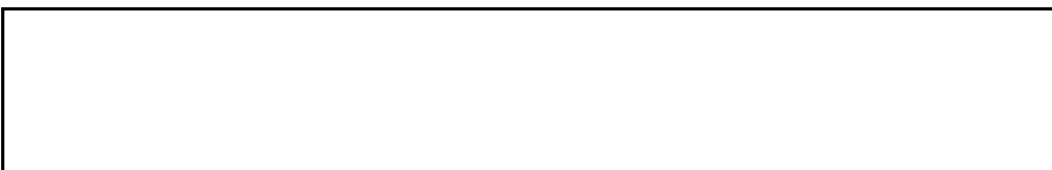
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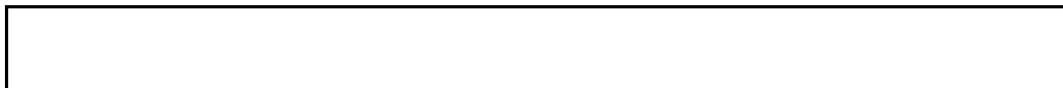
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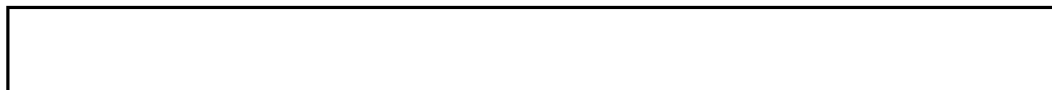
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EGYPT-ISRAEL

President Sadat maintained the tensions surrounding Middle East negotiations with his announcement last night that he has not yet decided whether to approve the extension of the UN mandate in the Sinai, which expires tomorrow.

Sadat acknowledged that the UN Security Council's appeal on Monday for a favorable Egyptian decision indicates a concern about "the gravity of the Middle East situation," but he indicated that in making its decision Egypt will take into account the council's responsibility not only for easing tensions but also for "implementing" past resolutions on Israeli withdrawal.

The President implied that Egypt still expects the UN to adopt an extension resolution that clarifies that the UN force is not being used to perpetuate the status quo. Foreign Minister Fahmi told the US ambassador yesterday that Egypt still wants an "acceptable" resolution which states the urgency of the need to move toward a settlement.

Egypt's ambassador to the UN told Ambassador Moynihan yesterday that he expects Sadat to reply to the Security Council's appeal sometime today. If Sadat's response is positive, the Egyptian diplomat said an extension resolution could be based on the most recent UN resolution providing for UN forces in the Sinai, but it must also include a reference to the Security Council's appeal, Egypt's response, and a paraphrase of the Secretary General's recent report on the purposes of the UN force.

The US embassy in Cairo has also interpreted Sadat's failure to make a decision now on the UN mandate as an indication that he is leaving the door open for an extension.

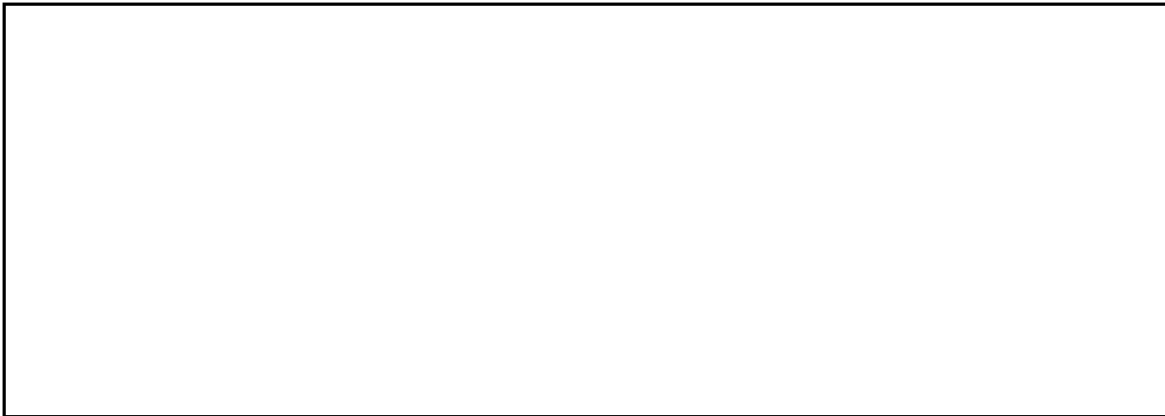
Sadat did not mention the status of current negotiations at any point in his two-hour speech. The political congress he was addressing ends tomorrow; he may speak again at its closing session.

The Israelis interpreted favorably Sadat's avoidance of the subject of negotiations. Quoting "senior observers" in Israel, Jerusalem's international news service reported their initial impression that Sadat is still interested in negotiations for an interim agreement and wants to continue the presence of UN forces in the Sinai.

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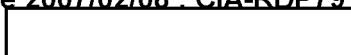
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On another front, Israeli Defense Minister Peres told the Knesset yesterday that he was "taking seriously" the redeployment of Jordanian troops from the Syrian border to the Jordan River opposite Israeli forces. He reportedly said that while the Jordanian deployment was "admittedly" of a "defensive nature," it could quickly change into an offensive posture. Peres did not suggest that Jordan had redeployed additional forces toward the Israeli front over the past few days; rather he seemed to have had in mind movements which occurred over a month ago.

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PORTUGAL

The rejection by two Socialist Party officials of a request that they join the cabinet apparently reflects their party's continued commitment to a joint strategy with Revolutionary Council moderates of preventing Prime Minister Vasco Goncalves from forming a new government.

The two Socialist leaders, Constituent Assembly leader Antonio Lopes Cardoso and an unidentified party official, reportedly declined to accept cabinet posts during a meeting with President Costa Gomes on Monday. The Socialist refusal ignores an earlier appeal by the Armed Forces Movement calling on all parties to place the national interest above partisan considerations during the present crisis.

Goncalves' position was further eroded yesterday by the announced resignation of three more non-Communist members of the former cabinet. The ministers of interterritorial affairs, external trade, and social infrastructure and environment reportedly said they would refuse to take part in the new government. The first two are independents with Socialist sympathies, but the third was a personal friend of the Prime Minister.

The Prime Minister apparently has also been deserted by his key leftist economic advisers in the former cabinet. The Revolutionary Council has set a deadline of late July for the cabinet to solve Portugal's deepening economic crisis. Since no progress has been made, these ministers—who are closely identified with Goncalves' economic failures—probably feel there is little point in accepting posts in the new cabinet.

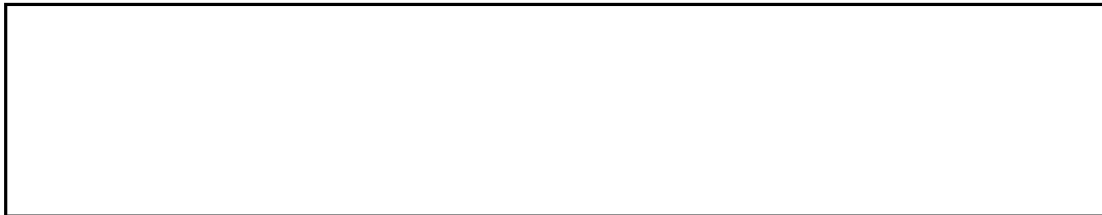
Meanwhile, anti-Communist mobs defied an appeal by the Revolutionary Council for calm by continuing their attacks on Communist Party headquarters and officials in northern and central Portugal yesterday. Party offices in widely scattered areas were sacked and burned and government security forces were forced to intervene to rescue beleaguered Communist officials.

In light of increasing pressures upon the Communists, a strong reaction on their part cannot be ruled out. In the event of a showdown, control of the security forces will be critical. Following the departure for Cuba on Monday by the forces' leftist but anti-Communist commander, General Otelo de Carvalho, army Chief of Staff Fabiao was disclosed yesterday to have postponed a scheduled trip to London. Fabiao is generally considered aligned with the moderates.

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In addition to its appeal for order, issued following a marathon meeting which lasted until early yesterday morning, the Revolutionary Council announced that it was continuing to review the present political situation. The Council communique also said that reports had been presented on recent developments in Angola and the Azores. It is probable that the current turmoil in Lisbon is providing encouragement to Azorean separatists, who are apprehensive over Communist influence on the mainland.

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TURKEY

Opposition criticism of the Demirel government's decision to postpone action against the US bases has been neither as severe nor as sustained as the government had feared.

The leading opposition figure, Bulent Ecevit, waited three days before issuing a statement that strongly attacked the US arms embargo. His statement made only a brief reference to the "excessively soft-line" policy of Prime Minister Demirel. One of Ecevit's associates in the Republican People's Party has told a US embassy official that the party was exercising restraint because of the realization that there is little sentiment in Turkey for loosening ties with the US. The embassy believes that Republican leaders do not want to leave themselves open to the charge that they forced the government to retaliate against US installations.

The Turkish press at first was highly critical of the government's decision to temporize before taking action against the bases. After this initial reaction, however, the base issue received less emphasis, while the arms embargo itself continued to be given major play.

The Turkish government probably still believes, nonetheless, that domestic political pressures require a new defense cooperation agreement with the US to replace the one signed in 1969. According to the US embassy, the content of the new agreement will depend on the outcome of the Congressional debate on the arms embargo and could include any or all of the following stipulations:

- linkage of the agreement to continued Turkish access to arms, although not necessarily providing for grant military assistance;
- a requirement that monetary compensation be paid for continued use of US facilities;
- appointment of Turkish commanders for joint defense installations;
- suspension of operations at certain installations.

The embassy believes the Turks will probably feel compelled to announce some form of provisional status for US installations as early as the end of this month, pending renegotiation of the Defense Cooperation Agreement.

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ITALY

Italy's Christian Democrats voted out party leader Fanfani at their national council meeting yesterday, taking the first step toward improving their relations with the Socialists and changing their conservative image.

Fanfani had resisted resigning even though the Communist Party last month came close to outpolling the Christian Democrats. He stepped down only after almost 60 percent of the Christian Democratic national council opposed him in a confidence vote yesterday.

The Christian Democrats have not yet named Fanfani's successor. If they decide against Prime Minister Moro's plan for a "collegial" leadership, the new leader will almost certainly be a moderate who has reached an accommodation with the Christian Democratic left wing. The left has adamantly opposed Fanfani's conservative policies.

Attention will now shift to the Socialists, whose party central committee will convene tomorrow to evaluate the results of the Christian Democratic meeting. Fanfani's ouster meets one of the conditions recently set by Socialist chief De Martino for his party's inclusion in another center-left coalition. Such a government is still the only workable alternative to one with Communist participation.

The Socialists want policy concessions from the Christian Democratic Party in line with their leftist ideology. Even those Christian Democrats inclined to make such concessions, however, have trouble with De Martino's idea of bringing the Communists directly into the process of deciding national policy.

De Martino, in an interview last week, ruled out giving the Communists any position in the next government, but he called for institution of formal consultations with them on the government's programs. De Martino said he could not see how his party could accept responsibility in any government that leaves the Communists totally in opposition.

The Socialists evidently believe their party will suffer at the polls if it remains associated only with the Christian Democrats. At the same time, the Socialists fear they would be dominated in any partnership with the stronger and better organized Communists. De Martino's idea of getting all three parties committed to the same program represents an attempt to solve both problems.

The Communists are still preoccupied with consolidating their regional and local election successes, but they will regard Fanfani's fall as victory. The Communist electoral campaign was directed against Fanfani, who was more

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explicitly anti-Communist than other Christian Democratic leaders. Communist chief Berlinguer regards Fanfani as a threat to the Communists' chances of gaining acceptance as a national political party entitled to a role in government.

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ARGENTINA-UK

Argentina has apparently signed contracts with a British shipbuilding firm under which six frigates will be constructed in Argentina over a ten-year period.

The \$379-million arms deal—the largest ever concluded by Buenos Aires—calls for some equipment and materials to be produced locally. Most of it, however, including guns, air-defense missiles, antisubmarine warfare weapons, and electronics, will be provided by the UK. Britain won the contract over strong competition from other European suppliers, particularly Italian.

The new combatants—2,500-ton, 384-foot ships—will augment the Argentine navy's World War II - vintage fleet of modernized US and British warships. Argentina's claims to a 200-nautical-mile territorial sea limit, as well as Brazil's fleet modernization and expansion program, prompted the decision to procure a larger and more modern patrol force.

In 1970, Buenos Aires ordered two British guided-missile destroyers. One is under construction in the UK and will be ready for delivery in late 1975. The other is being built in Argentina with UK-provided materials and technical assistance; it is scheduled for completion in 1978.

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SPAIN

Prime Minister Arias has suffered yet another setback in his drive to encourage the establishment of government-approved associations to serve as forerunners of political parties.

Earlier this month, a group of moderates—most of whom had been associated with the regime at one time or another—formally constituted a political action group under the guise of a research corporation. The largely center-right group refused to apply for status as a political association because this would have required the approval of the Franco regime's National Movement.

The founders of the new organization, to be known as the Independent Studies Federation (FEDISA), stated that their purpose is to study political, social, and economic problems confronting Spain.

The impressive political credentials of the founders will make FEDISA an important pressure group. The most prominent member is Manuel Fraga Iribarne, currently ambassador to London, who earlier this year decided not to form a political association after the regime failed to provide sufficient guarantees of freedom of action.

By incorporating as a research corporation, Fraga and other founders of FEDISA have signaled their intention to have a political voice, while remaining aloof from regime-sponsored schemes to promote political associations. The move follows the recent formation of a center-left organization that has made it clear it does not intend to apply for association status.

The Franco government reportedly is angered at the formation of FEDISA outside the framework of the political associations statute. The newly appointed minister of the National Movement called the device of incorporation "a fraud against the nation."

In the period since last January, when the statute on political associations took effect, only five—largely rightist—regime-oriented political associations have been approved by the government. On the other hand, the clandestine opposition parties, including the Socialists and the Christian Democrats, are gradually being drawn into the Democratic Conference, a clandestine grouping which is emerging as a rival of the Communist-dominated Democratic Junta formed in Paris last summer.

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USSR-ANGOLA

Recent substantial Soviet arms deliveries to the Popular Movement for the Liberation of Angola and harsher press treatment of the rival National Front for the Liberation of Angola indicate that Moscow is playing a more open role in its support of the Popular Movement.

Soviet military shipments since May have reportedly included trucks, various armored vehicles, artillery, grenades, machine guns, and small arms. The Soviets are also continuing to train substantial numbers of officers and troops of the Popular Movement in the USSR, East Germany, and the Congo.

Moscow and its East European allies are rumored to have made some direct arms shipments to the Popular Movement in Angola, but the Congo is the main conduit for Soviet arms.

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The Soviet press has consistently accorded special praise to the Popular Movement, but until recently it avoided direct attacks on the National Front and Angola's smallest group, the National Union for the Total Independence of Angola. In the wake of the recent fighting in Luanda, however, the press has charged that the National Front is a client of China and the US and has labeled it a "reactionary organization" whose members are "culprits for the death of hundreds of people."

Moscow probably still has not written off the prospect of a coalition government in Angola. With the Popular Movement now having a clear military advantage, however, the Soviets appear to expect that the Movement will have the dominant role following independence.

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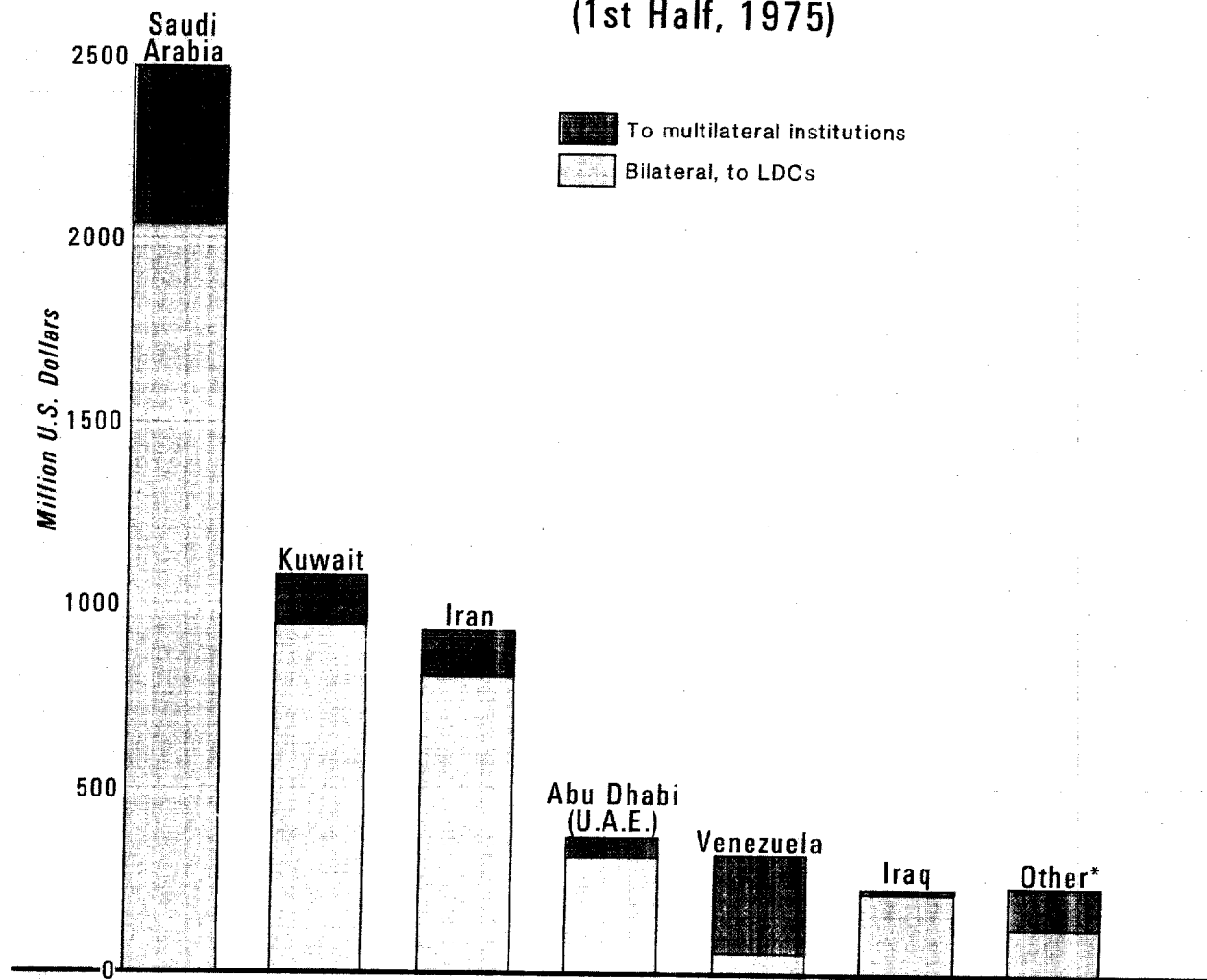
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OPEC: Economic Aid Disbursements to LDCs and Multilateral Aid Institutions (1st Half, 1975)



*Algeria, Libya, Nigeria & Qatar

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OPEC

Members of the Organization of Petroleum Exporting Countries disbursed \$4.5 billion in bilateral aid to the developing countries in the first half of this year, compared with \$3 billion in all of 1974.

They provided an additional \$1.1 billion to multilateral aid institutions, mainly the International Monetary Fund's oil facility, and small amounts to special Arab funds and regional development banks. We expect OPEC bilateral disbursements and payments to multilateral agencies to rise to \$8 billion for the year as a whole, up from \$5 billion last year.

About 70 percent of bilateral aid so far this year was from the Arab oil producers to other Arab states that have balance-of-payments problems. Saudi Arabia and Kuwait alone disbursed at least \$2 billion in newly committed funds, primarily to Egypt. Other bilateral transfers mainly implemented 1974 commitments, including \$1 billion in Rabat "war-chest" grants to Egypt, Syria, and Jordan.

Egypt was the only Arab recipient of bilateral aid from Iran. Romania, Bulgaria, and North Korea received some \$680 million in payments from Iran against future deliveries of goods to support Iranian development.

Bilateral aid to other developing states that import most of their oil totaled only \$295 million in the first half of 1975. OPEC funds from multilateral institutions provided another \$935 million. Nearly all of this money was channeled through the International Monetary Fund's oil facility, which gave most of it—\$590 million—to Spain, Turkey, and Chile.

For all of 1975, OPEC bilateral and multilateral aid should cover a little less than one third of the \$10-billion increase in the oil import bills of the developing countries. Some of the poorer countries, particularly Muslim states like Afghanistan, Bangladesh, North Yemen, and Pakistan, have fared well. Aid to other hard-hit countries—India, for example—has barely made a dent in higher oil bills.

As a group, the developing states designated by the UN as most seriously affected by higher prices received about \$2 billion in aid from OPEC countries and OPEC-funded sources in 1974. So far this year, however, they have taken only \$415 million, and this slow drawdown is expected to continue.

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USSR

Soviet officials in some Southeast Asian countries are again putting out feelers regarding a meeting on Asian collective security, but the Asian states are not expected to show any more interest or desire than they did in 1972.

The idea of developing such a system was first advanced by General Secretary Brezhnev at the international communist conference in June 1969. As originally conceived, the proposal was clearly aimed at China, but the Soviets now maintain publicly that Peking could take part. Because the idea aroused little if any enthusiasm among Asian states, the Soviets put it on the back burner until early 1972. Then, with the end of the Indian-Pakistani war and the return of former President Nixon from Peking, Moscow launched another attempt to generate interest by stressing that an Asian collective security system would make it more difficult for "imperialists to unleash aggressive wars."

The Soviets maintain that an Asian collective security system should be based on the following principles:

- renunciation of the use or threat of force;
- respect for sovereignty of states;
- inviolability of frontiers;
- noninterference in internal affairs;
- development of cooperation based on equality and mutual interest.

Moscow's latest attempt to generate interest in an Asian conference has been stimulated by the end of the conflict in Indochina and by the Soviet experience in and the apparent success of the Conference on Security and Cooperation in Europe.

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LAOS

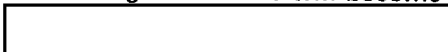
Deteriorating economic conditions and signs of discontent appear to have caused the communists to slow efforts to implement more revolutionary changes.

Food shortages, unemployment, and an increase in crime have been reported recently in Vientiane, and the government has recommended increased police patrols. It is difficult to assess the seriousness of the situation countrywide because of restrictions on the movement of foreign personnel; however, recent statements by senior Lao communist leaders reflect a growing concern with these problems.

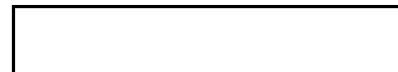


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Communist leaders have stated that the Pathet Lao - dominated government wants to maintain friendly relations with the US, but they are continuing to insist that the US has an obligation to provide aid with "no strings." Unless such aid is forthcoming, the Pathet Lao may be tempted to blame the US for their inability to cope with the deteriorating economic situation. In such case, the security of remaining Americans will become more tenuous.



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